

## Message Text

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E.O. 11652: N/A  
TAGS: OECD, ECON  
SUBJECT: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE  
(EDRC) REVIEW OF SWITZERLAND, MARCH 22

REF: PARIS 9481, STATE 73081, BERN 1242, EDR(78)7

1. SUMMARY: SWISS DELEGATION (HEADED BY L'HUILLIER, PROFESSOR AT UNIVERSITY OF GENEVA, ALSO THOMANN OF NATIONAL BANK AND REPRESENTATIVES OF FINANCE, INDUSTRY AND LABOR, "QUESTIONS CONJUNCTUELLES," TRADE AND STATISTICS) ARGUED FIRMLY THAT SWISS ECONOMY IS IN GOOD SHAPE, NEEDS NO ADDITIONAL FISCAL OR MONETARY STIMULUS AT THE MOMENT, AND THAT SWISS CURRENT SURPLUS, ALTHOUGH TOO LARGE, WAS NATURAL FOR A DEVELOPED COUNTRY AND HELPED TO DISTRIBUTE GLOBAL EXCESS SAVING BY  
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LENDING TO DEFICIT COUNTRIES. EDRC DID NOT AGREE WITH THIS LINE, SINCE (A) OECD-AREA IS IN SUBSTANTIAL DEFICIT TO OPEC, (B) THIS DEFICIT SHOULD BE SHARED BY ALL OECD COUNTRIES, AND (C) SOME LONG-TIME DEFICIT COUNTRIES NOW OVER-INDEBTED. URGENT NEED IS FOR ADDITIONAL DEMAND FOR IMPORTS BY COUNTRIES IN STRONG EXTERNAL POSITION. ALTHOUGH SWISS DID NOT WEAKEN IN

THEIR RESOLVE NOR IN THEIR ARGUMENTATION, THEY WERE CLEARLY TAKEN ABACK BY VIRTUALLY UNANIMOUS EDRC SUPPORT FOR SECRETARIAT RECOMMENDATION OF GREATER STIMULUS TO DOMESTIC DEMAND. END SUMMARY.

2. DOMESTIC ECONOMY: SWISS DELEGATION OPENED EDRC REVIEW BY SAYING THE SWISS ECONOMY IS IN GOOD SHAPE, HAVING ACHIEVED "THREE OF THE NORMAL FOUR" ECONOMIC OBJECTIVES--PRICE STABILITY, LOW UNEMPLOYMENT AND ACCEPTABLE GROWTH. THE FOURTH, THE EXTERNAL SECTOR, AS DESCRIBED BELOW, IS IN SWISS OPINION EXCESSIVELY IN SURPLUS--BUT, ACCORDING TO THE SWISS, THE STRUCTURE OF THE SURPLUS IS SUCH AS "TO HAVE NO UNFAVORABLE IMPACT ON OTHER COUNTRIES." SWITZERLAND IS NO LONGER IN A RECESSION, IN ITS VIEW, SINCE COMPARISON WITH EARLIER CYCLICAL PEAKS ARE IRRELEVANT GIVEN THE DRASTIC REDUCTION IN PRODUCTIVE CAPACITY GIVEN TODAY'S SMALLER LABOR FORCE--A PHENOMENON WHICH HAD SOCIAL NOT ECONOMIC ORIGINS. THE DEPTH OF THE 74/75 RECESSION, FURTHERMORE, WAS CAUSED BY EXCESSIVE SPECULATIVE PRODUCTION, PARTICULARLY CONSTRUCTION, DURING THE SIXTIES--THIS EXCESS HAD TO BE REDRESSED BEFORE RECOVERY COULD BEGIN. L'HUILLIER ESTIMATED THAT SINCE DEMAND (DOMESTIC AND EXPORT) COULD INCREASE FIVE PERCENT ANNUALLY WITHOUT SPARKING INFLATION--GIVEN POTENTIAL LABOR RESERVES, I.E., TODAY'S RELATIVELY LOW LIMITED OFFICIAL USE

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PARTICIPATION RATES AND UNFILLED FOREIGN LABOR QUOTAS (ALTHOUGH THESE ARE MALDISTRIBUTED FUNCTIONALLY AND GEOGRAPHICALLY) AND CAPACITY UNDERUTILIZATION.

3. DOMESTIC OUTLOOK: SWISS DEL SUGGESTED THAT, IN LONG TERM, PRODUCTIVE CAPACITY SHOULD INCREASE THREE PERCENT PER YEAR, AS SWISS SEE NO SLOWDOWN IN RATE OF INCREASE OF PRODUCTIVITY (THREE PERCENT PER ANRUM). GIVEN CURRENT PARTICIPATION RATES AND POLICY TOWARD IMMIGRANT WORKERS, THE LABOR SUPPLY WILL PROBABLY INCREASE BY 100,000 OVER THE NEXT FIVE YEARS. THE OUTLOOK FOR INVESTMENT IS LESS CERTAIN, BUT SWISS AUTHORITIES ARE OPTIMISTIC, GIVEN THAT PROFITS HAVE PERFORMED WELL IN 1976 AND 1977 (INCREASING TEN PERCENT IN EACH YEAR); THE CASH FLOW POSITION OF THE BUSINESS SECTOR IS GOOD; EXCESS PRODUCTION, THUS STOCKS FROM EARLIER PERIODS, HAVE BEEN DRAWN DOWN; AND THE GOVERNMENT IS CONTEMPLATING A NEW PROGRAM TO ENCOURAGE INVESTMENT IN HIGH TECHNOLOGY, KNOWLEDGE-INTENSIVE INDUSTRIES TO HELP MAINTAIN COMPETITIVENESS AGAINST AN APPRECIATING SWISS FRANC.

4. DOMESTIC POLICY: SWISS DELEGATION DISAGREED WITH  
THE SECRETARIAT'S DESCRIPTION OF SWISS POLICY AS

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RESTRICTIVE, NOTING THAT MONETARY TARGETS EXCEEDED  
NOMINAL GNP GROWTH THUS INSURING MORE THAN ADEQUATE  
LIQUIDITY. THEY ALSO ARGUED THAT THE SECRETARIAT UNDER-  
ESTIMATED THE EXPANSIONARY EFFECT OF THIS MONETARY  
POLICY. ON FISCAL POLICY, THE SWISS DELEGATION CITED  
THE OUTCOME OF THE 1977 COMBINED BUDGETS AS BEING IN  
SUBSTANTIALLY SMALLER DEFICIT THAN HAD BEEN BUDGETED  
DUE TO LOWER THAN EXPECTED INFLATION. SWISS CONCLUDED  
THAT 1978 WOULD THEREFORE BE SOMEWHAT MORE EXPANSIVE  
THAN 1977 ON THE BASIS OF 1978 BUDGETED DEFICIT  
(SF 2 BILL ACTUAL FOR 1977, SF 3 BILL PROJECTED FOR  
1978). THEY STRONGLY RESISTED ANY RECOMMENDATION THAT  
FISCAL POLICY BE MADE MORE EXPANSIVE, CITING BOTH THE  
"WILL OF THE PEOPLE" AND THE FACT THAT SWISS AUTHORITIES  
FOUND DOMESTIC DEMAND SATISFACTORY. FURTHERMORE, THE  
SWISS FELT THAT THERE WAS NO LINK OR AT BEST A TENUOUS  
ONE, BETWEEN DOMESTIC DEMAND AND THE SWISS CURRENT  
ACCOUNT POSITON. L'HUILLIER OPINED THAT FISCAL  
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STIMULUS COULD, HOWEVER, BE EXPECTED IF SERIOUS EMPLOYMENT DETERIORATION WERE EXPERIENCED--BUT FELT THIS WAS UNLIKELY.

5. STRUCTURAL ADJUSTMENT: THE SWISS DELEGATION AND THE EDRC WELCOMED THE SECRETARIAT'S SPECIAL SECTION ON STRUCTURAL ADJUSTMENT, BUT DISCUSSION OF THE CURRENT ACCOUNT SITUATION WAS SO EXTENSIVE AS TO DIVERT ATTENTION FROM THIS SECTION DURING THE EXAMINATION. THE SWISS DELEGATION DID SAY THAT THE SWISS ECONOMY WAS RATHER UNIQUE IN THIS REGARD IN THAT THERE WERE A NUMBER OF EXPORT-ORIENTED INDUSTRIES (SELLING 80-100 PERCENT OF THEIR PRODUCTION ABROAD) WHICH, GIVEN AN APPRECIATING SWISS FRANC, HAD TO ADJUST OR DIE. SWISS DELEGATION STRESSED THAT THIS ADJUSTMENT HAD TAKEN PLACE IN A FREE ENTERPRISE SETTING WITH VIRTUALLY NO GOVERNMENT INTERVENTION, ALTHOUGH THE PROPOSED INVESTMENT IMPULSION PROGRAM WOULD INTRODUCE SOME GOVERNMENT FUNDS AND STIMULUS IN THIS AREA.

6. CURRENT ACCOUNT: THE COMMITTEE AGREED THAT IT WAS NOT BASICALLY INTERESTED IN SWISS DOMESTIC DEMAND, BUT RATHER IN THE BEHAVIOR OF THE SWISS CURRENT ACCOUNT SURPLUS. VIRTUALLY ALL DELEGATIONS (EXCEPTING GERMANY AND JAPAN) ARGUED THAT THE STRUCTURE OF THE SWISS SURPLUS (I.E., BALANCE--OR SLIGHT DEFICIT--ON THE TRADE ACCOUNT, LARGE SURPLUS ON INVISIBLES) WAS IRRELEVANT, SINCE IT WAS THE SIZE OF THE SURPLUS WHICH WAS CREATING DIFFICULTY IN THE FOREIGN EXCHANGE MARKETS. THE SWISS DELEGATION ARGUED THAT A SURPLUS WAS NORMAL FOR A DEVELOPED COUNTRY, SINCE IT WAS THE VEHICLE WHEREBY IT COULD DISTRIBUTE SAVINGS TO DEFICIT COUNTRIES AND THAT, TO A LARGE EXTENT, THE SWISS SURPLUS MADE

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POSSIBLE THE CREATION OF PRODUCTIVE CAPACITY ELSEWHERE IN THE WORLD. THE COMMITTEE DID NOT ACCEPT THIS POSITION, ARGUING THAT OECD-AREA DEFICIT VIS-A-VIS OPEC MUST BE SHARED BY ALL OECD COUNTRIES--OTHERWISE DEFICIT COUNTRIES WOULD FACE EXCESSIVE INDEBTEDNESS. UNSUSTAINABLE POSITION OF DEFICIT COUNTRIES CANNOT BE IRRADICATED BY FURTHER LENDING OF SURPLUS COUNTRIES (THUS GREATER INDEBTEDNESS) BUT ONLY BY ACTION TAKEN BY THE SURPLUS COUNTRIES TO LOWER THEIR CURRENT SURPLUS. SEVERAL REPS, INCLUDING THE GERMANS, SAID

THAT, AS LONG AS THE SURPLUS REMAINED HIGH, SWISS  
AUTHORITIES SHOULD MAKE EXTRA EFFORTS TO INCREASE  
CAPITAL FLOWS FOR DEVELOPMENT ASSISTANCE.

7. EXCHANGE RATE: THE SWISS DELEGATION DID NOT ACCEPT  
THE IDEA OF A DIRECT LINK BETWEEN THE CURRENT ACCOUNT  
SURPLUS AND THE BEHAVIOR OF THE SWISS FRANC. THEY  
ARGUED THAT, IF THE SURPLUS WERE THE REASON FOR THE  
APPRECIATION OF THE FRANC, IT WOULD OCCUR AS A SMOOTH  
PROCESS, WHEREAS, IN FACT, THE FRANC WAS SUBJECT TO  
"BRUTAL" APPRECIATION OVER A SHORT PERIOD OF TIME  
FOLLOWED BY PERIODS OF RELATIVE STABILITY. SWISS  
AUTHORITIES ACCEPT THAT DIFFERENTIAL ECONOMIC PER-  
FORMANCE, PARTICULARLY ON INFLATION, MEANS THAT THE SWISS  
FRANC IS LIKELY TO APPRECIATE ON TREND. WHAT THEY  
OBJECT TO ARE THE VIOLENT FLUCTUATIONS AROUND THE  
TREND. THE SWISS DELEGATION DID NOT SUGGEST HOW THIS  
"TREND" MIGHT BE DETERMINED, BUT RATHER SAID THAT THE  
OBJECTIVE OF SWISS EXCHANGE RATE POLICY WAS TO ELIMINATE  
DEVIATIONS FROM IT. SEVERAL REPS, PARTICULARLY  
GERMANY AND JAPAN, SUGGESTED THAT GREATER INTERNATIONAL  
MONETARY COOPERATION WOULD ASSIST THE SWISS SITUATION  
AND MAKE POSSIBLE FASTER DOMESTIC EXCHANGE. THE

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SECRETARIAT COUNTERED WITH THE PROPOSITION THAT CON-  
CERTED ACTION ON GROWTH SHOULD BE ASSISTED BY POLICIES  
DESIGNED TO FIGHT PROTECTIONISM, STABILIZE EMPLOYMENT  
AND CALM FOREIGN EXCHANGE MARKETS, BUT THAT THIS PACKAGE  
COULD ONLY BE EFFECTIVE IN THE CONTEXT OF FASTER GROWTH  
BY STRONGER COUNTRIES. THE SWISS DELEGATE COMMENTED  
BRIEFLY ON RECENT CAPITAL IMPORT CONTROLS, STATING THAT  
THEY WERE REASONABLY STRONG MEASURES WHICH IT WAS HOPED  
COULD SOON BE REMOVED. HE WOULD NOT COMMENT ON WHETHER  
FURTHER CONTROLS WERE ENVISAGED, BUT SAID THAT THERE  
WAS NO INTENTION TO INVOKE A COMPREHENSIVE SYSTEM OF  
EXCHANGE CONTROLS.

8. CONCLUSIONS: VIRTUALLY THE ENTIRE EDRC DISCUSSION  
WAS DEVOTED TO THE EFFECTS OF SWITZERLAND'S CURRENT  
ACCOUNT SURPLUS ON SWISS DOMESTIC PERFORMANCE, ON  
EXCHANGE MARKETS, AND ON THE INTERNATIONAL COMMUNITY.  
SWISS DELEGATION FILIBUSTERED FOR TWO HOURS IN THE  
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MORNING--FOLLOWED BY EXTENSIVE QUESTIONING (AND STATE-  
MENTS OF POSITION) BY THE EDRC. SWISS RESPONSES TO  
QUESTIONS WERE SELECTIVE--AVOIDING MANY OF THE ATTEMPTS  
TO INDUCE A SWISS COMMITMENT TO, OR EVEN COMMENT ON,  
THE "CONCERTED ACTION" STRATEGY. EDRC AGREED THAT 1977  
HAD TURNED OUT BETTER THAN EXPECTED, PRIMARILY DUE TO  
STRONGER THAN EXPECTED EXPORTS. THERE WAS LESS AGREE-  
MENT ON CURRENT ACCOUNT SURPLUS, BUT EDRC CHAIRMAN  
CALLED ATTENTION TO SUCCESS OF SWISS DEFLATIONARY POLICY  
AND SUBSEQUENT REDUCTION OF POPULATION (THROUGH RETURN  
OF FOREIGN WORKERS) AS PRINCIPAL CAUSES, NOTING  
THAT TRADE DEFICIT SHOULD BE SOUGHT TO COUNTERACT  
LARGE INVISIBLES SURPLUS. EDRC AND SWISS AGREED THAT  
TWO OBJECTIVES WOULD BE DESIRABLE--REDUCED SURPLUS AND  
FASTER GROWTH--BUT REMAINED DIVIDED ON HOW TO ACCOMPLISH  
THEM, SINCE SWISS WISHED TO RULE OUT STIMULUS TO  
DOMESTIC DEMAND IN CURRENT CIRCUMSTANCES.  
SALZMAN

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## Message Attributes

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